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SUBJECT: RUDD HONEYMOON MEETS BUDGET REALITIES

11. (SBU) SUMMARY: From March 7-12, the dominant political issue was speculation over whether the Rudd Government would axe budget allocations for carers (family members who care for invalids) and seniors in his fight against inflation. With Rudd overseas for most of this period, the Government did not handle this issue well, allowing the Opposition to whip up fear in the care-dependant community and land blows on Rudd in the parliament. Rudd finally had to guarantee the funds would be paid. Desperate to boost his leadership credentials, Liberal leader Brendan Nelson exploited this issue ruthlessly, delivering his best speech in Parliament since he became leader. Nelson portrayed himself as the compassionate former doctor defending vulnerable Australians against a "bureaucratically ruthless" Prime Minister. When Rudd embarks on his two and a half week overseas trip March 27, the Government will need to defend itself more adroitly. The carers and seniors issue was possibly the beginning of a long line of negative stories that Rudd will have to deal with as he takes the axe to government spending in the May budget. END SUMMARY

THE BUDGET-CUT STORY BREAKS

12. (U) On Friday, March 7 "The Australian" newspaper claimed the Rudd Government planned to scrap an AUD \$1600 budget bonus paid to carers. This bonus had been paid by the Howard Government in its last four budgets. The next day the same newspaper ran a story claiming that a \$500 budget bonus payment to pensioners and some self-funded retirees would also be scrapped. The Howard Government had provided this handout at its last budget. Over the next three days, there were a number of media reports of struggling carers and their physically and mentally disabled loved ones. Over the weekend, Nelson visited the terminally-ill 73 year-old man who had tipped off "The Australian" to the issue.

ALP SHOOTS ITSELF IN THE FOOT

13. (U) The day the carers story broke, the Government's response (with Rudd in the South Pacific) was that it did not speculate on budget matters. The responsible minister, Jenny Macklin, said: "I know people want an answer today, but there is a budget process to go through." Parliamentary Secretary for Disability Services Bill Shorten, while visiting a new home for young people with disabilities, said: "the Government, of which I am part of, has a very clear policy that it isn't going to get drawn into debate about what is in or not in the Budget." This did nothing to allay carers' fears and ensured the story would continue over the weekend. The next day the ALP also had to deal with reports the seniors bonus would be scrapped. The response from Macklin's office was that \$500 payments had not been built into the forward estimates and the Howard government had not made any provision in the budget to continue the payments. Again, this poured fuel on the public relations fire.

14. (U) That evening, Rudd - in the Solomon Islands - said that there was a budget process underway, but that carers and seniors would not "be left in the lurch." This helped with the negative publicity, but it failed to kill the story which continued over Sunday and Monday. On Tuesday, March 11, Rudd gave "an absolute guarantee that those carers will not be a dollar worse off" while refusing to clarify whether the bonuses would continue to be paid in a lump sum. This provided more ammunition for the Opposition, which pointed out that many carers and seniors were counting on receiving lump sums in the budget.

#### NELSON FIRES UP

15. (SBU) In Parliamentary Question Time on March 11, Nelson attacked: moving a censure motion against the "Prime Minister and the Government for its plans to cut the benefits received by 400,000 carers and more than 2 million seniors." Nelson's speech was, according to many observers, his best so far as Opposition Leader. The Censure motion was defeated along party lines but Nelson appeared for the first time the real winner. That night, Rudd, through a spokesman, said that the bonuses would be paid upfront. A Newspann poll published March 18 showed Nelson making some points in the polls, albeit from seven to only 10 percent. Rudd, however, with a 70 percent approval rating continued his massive lead in this area.

#### THE KEVIN RUDD SHOW MEETS BUDGET REALITIES

16. (SBU) COMMENT: This dust-up over budget payments to carers and seniors highlights two issues the Rudd Government will have to face. Thanks to the booming economy, the Howard Government had thrown a lot of money around to buy votes and

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Rudd must now cut the budget in order to curb inflation. Nelson and the Coalition will exploit every budget grievance, as the ALP did when the Howard Government slashed spending in its early years. With the former government having lavished money on almost all segments of Australian society in the hopes of winning political support, the negative media stories, and Opposition portrayals of Rudd as a "heartless bureaucrat," are only beginning. The second problem for the Government is that its response to the media firestorm floundered until Rudd returned from his Pacific-Island trip. While the Government was still forced to backdown, Rudd's initial comment -- that the carers and seniors would be taken care of despite any budget cut -- was a much more sure-footed answer than "we do not comment on future budgets" and took some of the heat out of the Opposition's attacks. The other members of the Government will need to demonstrate that it is not just the "Kevin Rudd Show," particularly with the star heading on the road for two and a half weeks on March 27.

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